



## Department of Energy

Bonneville Power Administration  
P.O. Box 3621  
Portland, Oregon 97208-3621

EXECUTIVE OFFICE

January 26, 2007

In reply refer to: T-DITT2

Dear Programs in Review Participant:

On November 22, 2006, we sent a letter to you reflecting the tentative results of a public process called Programs in Review (PIR), which the Bonneville Power Administration conducted from May 2006 through the summer of 2006. This process engaged the region in discussions about Transmission Services' fiscal year 2008 and 2009 program levels and program costs. During this public process, BPA presented information about its transmission programs and invited customers, tribes, constituents and other regional stakeholders to comment on and make recommendations related to these programs.

The November 22 letter provided (1) an update on where Transmission Services' program costs stood compared to the initial PIR proposal; (2) a comparison of program levels for the upcoming rate period versus the current rate period; and (3) my tentative decision for Transmission Services' program levels for fiscal years 2008 and 2009. Because there had been recent updates in program levels, we provided a two-week comment period on the tentative PIR decisions.

No comments we received addressed specific expense or capital levels in the letter and, as a result, the figures presented in the November 22 PIR letter are now final. For your convenience, the appendices from the November 22 letter that show the expense and capital levels are enclosed.

### Specific Issues Raised in Comments

A common theme in the comments was a wish to become more involved in the capital review process before projects are authorized. As part of the Regional Dialogue discussion, BPA will design a process that among other things will enhance the transparency of the agency's capital decisions and provide opportunities for stakeholder input into these decisions. As this process is implemented, customers and stakeholders will be able to provide timely input into agency capital and expense decisions.

Other issues addressed in comments involved regional transmission planning, expansion and maintenance practices. BPA is addressing these issues individually with the parties in a separate process.

BPA also received a request for a workshop regarding the depreciation study and is exploring options about the best forum for this discussion.

BPA Power Services expressed concern that the Libby-(Flathead Electric Cooperative)-Troy Rebuild Plan, which calls for a single-circuit 115-kilovolt line, could limit generation at the Hungry Horse and Libby projects. A thorough review by the Technical Review Committee in May 2006 determined that the 115-kV line will meet load service requirements well into the future since there are no firm plans for additional resource development in the Libby area. Without an identified need, the incremental cost to build a double-circuit 230-kV line versus a single circuit 115-kV rebuild is not justified. If and when the transmission system requires additional capacity out of the Libby area, Transmission Services will evaluate all potential options including the Libby-Bonnors Ferry corridor.

In addition to comments received, BPA wishes to clarify language in the November 22 letter. Under the section comparing the prior rate case to the new rate period, we indicated that “In accordance with current accounting policies and practices, certain investments that were formerly charged to capital will now be expensed.” This may have inadvertently suggested a change in accounting policies, which is not correct. The change was in the application of the policies. To clarify, a review of BPA’s application of its capitalization policies identified situations where certain replacements had been charged incorrectly to capital instead of expense. Examples include replacements of certain “Minor Items of Property,” such as roofs, heating, ventilation and air-conditioning systems, spacer dampers, airway lighting and marker balls; the support costs associated with this work; and individual items of “Personal Property” that do not meet the \$10,000 capitalization threshold, such as small miscellaneous tools and equipment.

I would like to express my sincere appreciation for the participation and thoughtful comments of our customers and other regional stakeholders. BPA remains committed to an open and collaborative public process where ideas can flow freely. Thank you again for your participation in this process that has helped shape our program levels.

Sincerely,

*/s/ Stephen J. Wright*

Stephen J. Wright  
Administrator and Chief Executive Officer

4 Enclosures

Appendix 1: Expense Program Comparison of Initial and Current PIR FY08-09 Program levels

Appendix 2: Expense Program Levels FY08-09

Appendix 3: Capital Program-Comparison of Initial and Current PIR Average FY08-09 Program Levels

Appendix 4: Capital Program Levels FY08-09

**Transmission Expenses (\$000) - Programs In Review**

Program & Other Operating Costs	Averages Across FY 2008-09		
	Initial Proposal	Final Proposal	Change
<b>Transmission's Transmission Acquisition</b>			
Leased Facilities	14,945	14,853	(91)
Settlements	940	940	-
Non-BBL Ancillary Services	310	3,050	2,740
<b>Transmission System Operations</b>			
Information Technology	-	671	671
Power System Dispatching	10,103	10,228	125
Control Center Support	9,511	9,531	20
Technical Operations	3,732	3,732	-
Substation Operations	18,756	18,951	194
<b>Transmission Scheduling</b>			
Management Supervision & Administration	1,053	1,053	-
Reservations	464	464	-
Pre-Scheduling	763	763	-
Real-Time Scheduling	4,005	4,005	-
Scheduling Technical Support	2,715	2,715	-
Scheduling After-The-Fact	673	673	-
<b>Transmission Marketing</b>			
Transmission Sales	2,256	2,256	-
Marketing Internal Operations	872	872	-
Transmission Finance	824	824	-
Contract Management	1,477	1,477	-
Transmission Billing	1,942	1,942	-
Business Strategy & Assessment	2,471	2,471	-
Marketing IT Support	-	-	-
Meter Data	1,370	1,370	-
<b>Transmission Business Support</b>			
Executive and Admin Services	8,118	8,118	-
Staff Management	-	-	-
TBL Internal G&A	7,643	7,655	13
Aircraft Services	1,071	1,343	272
Logistics Services	4,058	5,133	1,075
Security Enhancements	1,038	1,039	0
<b>Transmission System Development</b>			
Research & Development	3,431	3,431	-
TSD Planning & Analysis	3,518	3,518	-
Capital to Expense Transfer	3,000	3,000	-
Inventory Management	4,500	4,500	-
Regulatory & Region Association Fees	1,821	2,215	394

**Transmission Expenses (\$000) - Programs In Review**

Program & Other Operating Costs	Averages Across FY 2008-09		
	Initial Proposal	Final Proposal	Change
<b>Transmission System Maintenance</b>			
Non-Electric Maintenance	11,102	11,141	39
Substation Maintenance	17,006	17,607	600
Transmission Line Maintenance	18,337	19,008	671
System Protection Control Maintenance	8,763	9,820	1,057
Power System Control Maintenance	8,804	10,742	1,938
System Maintenance Management	6,889	6,890	1
ROW Maintenance	12,923	12,966	43
Heavy Mobile Equipment Maintenance	1,694	847	(847)
Technical Training	3,811	3,811	-
<b>Transmission Environmental Operations</b>			
Environmental Policy & Planning	1,286	1,286	-
Pollution Prevention & Abatement	3,440	3,440	-
<b>Transmission Other</b>			
Civil Service Retirement System (CSRS)	12,139	12,139	-
Undistributed Cost Reduction	(2,000)	(2,000)	-
Non-Federal Debt Service	-	12,234	12,234
<b>Total Transmission System O &amp; M</b>	<b>221,576</b>	<b>242,727</b>	<b>21,150</b>
<b>Between Business Line Expenses</b>			
Ancillary Services	53,491	45,521	(7,970)
Corps/Bureau/Network/Delivery Facilities	7,213	7,025	(188)
Station Service	3,792	3,589	(203)
<b>Total BBL Expense</b>	<b>64,496</b>	<b>56,135</b>	<b>(8,361)</b>
<b>Corporate Expenses</b>			
Legal Support - Expense	2,168	2,250	81
Shared Services Costs	-	-	-
Corporate Overhead Distributions	63,836	66,202	2,366
<b>Total Corporate Charges</b>	<b>66,004</b>	<b>68,451</b>	<b>2,448</b>
<b>Total Transmission Operating Expense</b>	<b>352,076</b>	<b>367,313</b>	<b>15,237</b>

This information has been made publicly available by BPA on November 21, 2006, but due to the detailed nature or the manner in which it is grouped, the numbers cannot be identified in any other publicly released Standard Financial Report or other Agency Financial Information

## Appendix 2

**Transmission Expenses (\$000) - Programs In Review**

<b>Program &amp; Other Operating Costs</b>	<b>FY2008</b>	<b>FY2009</b>
<b>Transmission's Transmission Acquisition</b>		
Leased Facilities	13,608	16,098
Settlements	931	950
Stability Reserve Payments	3,050	3,050
<b>Sub-Total Transmission Acquisition</b>	<b>17,589</b>	<b>20,098</b>
<b>Transmission System Operations</b>		
Information Technology	662	681
Power System Dispatching	10,125	10,332
Control Center Support	9,449	9,613
Technical Operations	3,694	3,770
Substation Operations	18,758	19,143
<b>Sub-Total Transmission System Operations</b>	<b>42,688</b>	<b>43,539</b>
<b>Transmission Scheduling</b>		
Management Supervision & Administration	1,035	1,071
Reservations	459	469
Pre-Scheduling	755	771
Real-Time Scheduling	3,971	4,039
Scheduling Technical Support	2,691	2,738
Scheduling After-The-Fact	666	680
<b>Sub-Total Transmission Scheduling</b>	<b>9,577</b>	<b>9,767</b>
<b>Transmission Marketing</b>		
Transmission Sales	2,230	2,283
Marketing Internal Operations	861	884
Transmission Finance	815	832
Contract Management	1,456	1,498
Transmission Billing	1,922	1,962
Business Strategy & Assessment	2,446	2,496
Marketing IT Support	0	0
Meter Data	1,354	1,385
<b>Sub-Total Transmission Marketing</b>	<b>11,084</b>	<b>11,340</b>
<b>Transmission Business Support</b>		
Executive and Admin Services <u>1/</u>	8,045	8,191
Staff Management	0	0
TBL Internal G&A <u>1/</u>	7,577	7,733
Aircraft Services	1,327	1,360
Logistics Services	5,080	5,185
Security Enhancements	1,028	1,049
<b>Sub-Total Transmission Business Support</b>	<b>23,057</b>	<b>23,519</b>
<b>Transmission System Development</b>		
Research & Development	3,396	3,466
TSD Planning & Analysis	3,502	3,534
Capital to Expense Transfer	3,000	3,000
Inventory Management	5,000	4,000
Regulatory & Region Association Fees	2,180	2,250
<b>Sub-Total Transmission System Development</b>	<b>17,078</b>	<b>16,250</b>

### **Transmission Expenses (\$000) - Programs In Review**

<b>Program &amp; Other Operating Costs</b>	<b>FY2008</b>	<b>FY2009</b>
<b>Transmission System Maintenance</b>		
Non-Electric Maintenance	11,053	11,229
Substation Maintenance	17,386	17,827
Transmission Line Maintenance	18,826	19,191
System Protection Control Maintenance	9,730	9,911
Power System Control Maintenance	10,627	10,858
System Maintenance Management	6,822	6,958
Right Of Way Maintenance	12,844	13,088
Heavy Mobile Equipment Maintenance	858	836
Technical Training	3,530	4,092
<b>Sub-Total Transmission System Maintenance</b>	<b>91,675</b>	<b>93,992</b>
<b>Transmission Environmental Operations</b>		
Environmental Policy & Planning	1,266	1,307
Pollution Prevention & Abatement	3,389	3,491
<b>Sub-Total Transmission Environmental Operations</b>	<b>4,655</b>	<b>4,798</b>
<b>Transmission Other</b>		
Civil Service Retirement System (CSRS)	9,000	15,277
Undistributed Cost Reduction	(2,000)	-2,000
Non-Federal Debt Service	11,034	13,434
<b>Sub-Total Transmission Other</b>	<b>18,034</b>	<b>26,711</b>
<b>Sub-Total Transmission System Operations &amp; Maintenance</b>	<b>235,438</b>	<b>250,016</b>

<b>Between Business Line Expenses</b>		
Ancillary Services	45,521	45,521
Corps/Bureau/Network/Delivery Facilities	6,652	7,397
Station Service	3,589	3,589
<b>Sub-Total Between Business Line Expense</b>	<b>55,762</b>	<b>56,507</b>

<b>Corporate Expenses</b>		
Legal Support - Expense	2,213	2,287
Shared Services Costs	0	0
Corporate Overhead Distributions	66,044	66,359
<b>Sub-Total Corporate Charges</b>	<b>68,257</b>	<b>68,646</b>

<b>Total Transmission Expense Program Levels</b>	<b>359,457</b>	<b>375,169</b>
--	----------------	----------------

1/ Executive and Admin Services includes expenses for Executive Management, Asset Management, Continuity of Operations, and non-project travel and training costs.  
Internal G&A includes expenses for General Administration, Relocations and Pay for Performance

Sources: Tentative Program Levels as approved by Steve Wright, on November 21, 2006

*This information has been made publicly available by BPA on November 21, 2006, but due to the detailed nature or the manner in which it is grouped, the numbers cannot be separately identified in any other publicly released Standard Financial Report or other Agency Financial Information.*

**CAPITAL PROGRAM LEVELS FY08-FY09**  
**(\$ in Thousands)**

Program Description	Energization Date	FY 2008 Forecast	FY 2009 Forecast
<b>MAIN GRID PROJECTS</b>			
West of McNary Generation Integration	2010	3,205.8	
Line Relocations on Tribal Lands	On Going	3,740.1	3,815.6
Seattle Area 500/230 kV Bank	2010	213.7	2,180.4
Olympic Peninsula Reinforcement	2009	12,556.0	12,809.6
Shelton-Fairmount 230KV line	2012	0.0	1,090.2
I-5 Corridor upgrades	2011	5,343.0	10,901.8
Libby-Troy Rebuild	2009	5,984.1	981.2
Other Associated Gen Integration	On Going	5,000.0	5,000.0
Communications moved to Corporate		(41.0)	(42.0)
NERC Criteria Compliance	On Going	15,000.0	15,000.0
System Reactive Facilities	On Going	10,000.0	10,000.0
Various Additions	On Going	10,000.0	10,000.0
<b>Sub-Total Main Grid</b>		<b>71,001.7</b>	<b>71,736.8</b>

<b>AREA &amp; CUSTOMER SERVICE PROJECTS</b>			
Lower Valley Reinforcement (Caribou)	2008	8,121.3	0.0
Madison Shunt Cap	2008	480.9	0.0
City of Centralia	2008	8,548.8	0.0
Misc. Line Upgrade	On Going	4,274.4	4,360.7
Customer Service Items	On Going	4,000.0	4,000.0
<b>Sub-Total Area &amp; Customer Service</b>		<b>25,425.4</b>	<b>8,360.7</b>

<b>UPGRADES &amp; ADDITIONS PROJECTS</b>			
System Controls	On Going	7,480.2	7,631.3
Celilo Upgrades		13,784.9	7,086.2
CC Systems	On Going	5,343.0	5,450.9
Fiber Optics (Includes Terminations)	On Going	16,028.9	10,901.8
Misc Substation Additions	On Going	5,000.0	5,000.0
<b>Sub-Total Upgrades &amp; Additions</b>		<b>47,637.0</b>	<b>36,070.2</b>

<b>SYSTEM REPLACEMENTS PROJECTS</b>			
Nonelectric Plant Replacements	On Going	3,205.8	3,270.5
Security Enhancements	0	3,953.8	4,033.7
Transmission Line Replcmnts	On Going	1,068.6	1,090.2
Wood Pole Replacement	On Going	6,411.6	6,541.1
NCI Replacements	On Going	320.6	327.1
Spacer Damper Replacements	On Going	9,617.4	9,811.6
Substation Replacements	On Going	9,617.4	9,811.6
System Protection Replacements	On Going	7,480.2	7,631.3
Pwr Sys Cntrl Replacements	On Going	7,480.2	7,631.3
Total System Replacements	On Going	49,155.4	50,148.4
Aircraft Replacement	2009	6,945.9	7,086.2
Tools and Equipment	On Going	6,500.0	6,500.0
<b>Sub-Total System Replacements</b>		<b>62,601.3</b>	<b>63,734.5</b>

<b>ENVIRONMENT PROJECTS</b>			
Total Environment (PP&A)	On Going	5,129.3	5,450.9
<b>Sub-Total Environment (PP&amp;A)</b>		<b>5,129.3</b>	<b>5,450.9</b>

# CAPITAL PROGRAM LEVELS FY08-FY09

(\$ in Thousands)

Program Description	Energization Date	FY 2008 Forecast	FY 2009 Forecast
<b>ALL OTHER DIRECT CAPITAL</b>			
Completion of Prior Year Items	On-going	106.9	109.0
Cap-to-Exp Adjustments	On-going	(3,000.0)	(3,000.0)
Undistributed Capital Adjustments	On-going		
Non-Wires Program	On-going	3,000.0	3,000.0
Retirements and Sale of Facilities	On-going	5,000.0	5,000.0
<b>Sub-Total All Other Capital</b>		<b>5,106.9</b>	<b>5,109.0</b>

<b>SUB TOTAL CAPITAL (DIRECT)</b>	<b>216,901.5</b>	<b>190,462.2</b>
-----------------------------------	------------------	------------------

<b>INDIRECTS</b>			
TSD Program Indirect		21,803.8	22,244.1
TSD MS&A		8,865.6	9,044.7
Support Services Cap Distribution		10,639.3	10,854.2
AFUDC		10,295.0	10,798.0
Corporate Distributions		25,388.0	25,168.0
<b>SUB TOTAL CAPITAL (INDIRECT)</b>		<b>76,991.7</b>	<b>78,109.0</b>

<b>TOTAL CAPITAL REQUIRING BORROWING AUTHORITY</b>	<b>293,893.2</b>	<b>268,571.2</b>
--	------------------	------------------

<b>Non-Treasury Financed &lt;Note 1</b>			
<b>Generator and Third Party Financed &lt;Note 2</b>			
Generator Interconnection	TBD	42,743.8	38,156.4
COI Addition Project	2008	4,274.4	0.0
Non-Federal AFUDC <Note 3	TBD	2,087.0	285.0
Revenue Financed Projects	TBD		
Projects Funded in Advance	TBD	13,400.0	22,900.0
<b>Total Non-Treasury Financed</b>		<b>62,505.2</b>	<b>61,341.4</b>

<b>TOTAL CAPITAL (Direct, Indirect &amp; Non-Treasury)</b>	<b>356,398.5</b>	<b>329,912.6</b>
--	------------------	------------------

This information has been made publicly available by BPA on November 21, 2006, but due to the detailed nature or manner in which it is grouped, the numbers cannot be separately identified in any other publicly released Standard Financial Report or other Agency Financial Information.

## Notes:

<1 Source: This category includes those facilities where BPA retains ownership but which is funded by a third party.

<2 Projects shown in this section have not been approved and depend upon signing transmission agreements requiring customer advance payments in return for future transmission credits before going forward.

<3 Source: AFUDC related to non-Treasury funded projects that is non-Treasury financed.



**Capital Program: Comparison of Initial and Current PIR Averages FY08-09 Program Levels**  
**(\$ in Thousands)**

Capital Program	Averages Across FY08-09		
	PIR Initial <Note 1	PIR Proposal <Note 2	Delta
Main Grid <Note 3	72,545	71,369	(1,175)
Area and Customer Service	16,893	16,893	-
Upgrades and Additions	41,854	41,854	-
System Replacements <Note 4	68,168	63,168	(5,000)
Environment	5,290	5,290	-
All Other Capital <Note 7	(9,892)	5,108	15,000
<b>Sub Total Capital</b>	194,857	203,682	8,825
Indirects <Note 5	81,242	77,550	(3,692)
<b>Total Capital Requiring Treasury Borrowing Authority</b>	276,100	281,232	5,133
Non-Treasury Financed <Note 6, <Note 7	75,737	61,923	(13,814)
<b>Total Capital Program</b>	351,837	343,155	(8,681)

This information has been made publicly available by BPA on November 21, 2006, but due to the detailed nature or the manner in which it is grouped, the numbers cannot be separately identified in any other publicly released Standard Financial Report of other Agency Financial Information.

**Notes:**

<1 Source: Initial PIR is from the Initial PIR meetings in June 2006.

<2 Source: Forecasted Capital used in the October 3, 2006 Revenue Requirement

<3 Source: Planned capital for Libby Troy decreased from initial proposal to reflect a revised plan of service. Part of this decrease was offset by additional planned capital for West of McNary preliminary engineering costs that was not in the initial proposal.

<4 Source: Capital program decreased from initial proposal due to removal of placeholder for emergency capital work.

<5 Source: AFUDC decreased from initial proposal which was offset by an increase in Agency Services.

<6 Source: Increased from initial proposal due to the addition of AFUDC related to non-Treasury funded projects that is non-Treasury financed.

<7 Source: Changes in the Other Capital and Non-Treasury Financed lines are due to reflection of all projected spending for the capital program, Treasury and Non-Treasury financed. The net change of these two lines is zero and therefore is not changing the total projected capital program.